

The University of Maine

DigitalCommons@UMaine

Maine History Documents

Special Collections

1927

Veto Message, State of Maine, Office of the Governor, March 27, 1927

Maine Office of the Governor

Follow this and additional works at: <https://digitalcommons.library.umaine.edu/mainehistory>



Part of the [History Commons](#)

This Monograph is brought to you for free and open access by DigitalCommons@UMaine. It has been accepted for inclusion in Maine History Documents by an authorized administrator of DigitalCommons@UMaine. For more information, please contact um.library.technical.services@maine.edu.

Public Utilities Commission
Water Resources Division
Augusta, Maine
Veto Message
UNIVERSITY OF MAINE LIBRARIES
STATE OF MAINE
DOCUMENT DEPOSITORY

STATE OF MAINE
OFFICE OF THE GOVERNOR
AUGUSTA

March 24, 1927.

To the Honorable Senate and House of Representatives:

There is returned herewith without my approval

AN ACT Relating to the Excise Tax on Railroads.

This measure inaugurates the so-called gross-net plan for taxation upon the railroads of this State with the immediate effect of reducing the taxes upon the railroads of Maine by \$250,000.00 for each of the next two years. Its results thereafter cannot be anticipated but offer serious prospect of the disruption of the finances of the State by a possible variation of 40% in the revenues from this source.

This reduction does not effect the Bangor and Aroostook Railroad Company in any way. The Maine Central Railroad Company benefits to the extent of \$170,000.00.

In 1925 the Maine Central Railroad Company showed a surplus of \$1,100,000.00 or 8½% upon its common stock. In 1926 this railroad showed a surplus of \$1,270,000.00 or more than 9% upon its common stock. For January of this present year the net revenue of this Company from its railway operations showed an increase of 30% over January of a year ago. At this rate its surplus for the present year would amount to more than \$1,600,000.00 or 14% upon its common stock.

The railroad representatives have made it entirely clear that tax reduction does not and cannot mean rate reduction since the railroad may still materially increase its earnings without exceeding the limits allowed by the Interstate Commerce Commission. This means that the prospective \$1,650,000.00 surplus during this next year will be increased by \$250,000.00 taken from other tax-payers in the State of Maine. The earnings of 14% upon its common stock will be raised to 16% as a result of this contribution alone made by the industries and farms of Maine.

The textile mills and shoe factories of Maine face problems. Some have been obliged to close. Their net income and their gross income, in some instances, have both alike disappeared, yet to their backs must be transferred the burden that is taken from this prosperous railroad in our State.

Preliminary estimates of the committee on appropriations show proposed increases in state expenditures amounting to \$2,500,000. This would mean a 50% increase in direct state taxation for each of the next two years upon agriculture and industries, certain of which are finding it difficult to carry on.

The closing of certain mills and factories means distress for a great number of people dependent directly or indirectly upon the money that they disburse. All these citizens of our State in our factories and stores and upon our farms must contribute their share to such portions of this \$2,500,000 as the State may find it necessary to raise and in addition from their depleted pockets during the next two years must contribute \$500,000.00 to the coffers of two railroads that serve our State.

During the last campaign and in the Inaugural Message there was strong endorsement of the necessity of tax-reduction and the equity of distributing this reduction among all the taxpayers of our State. The Budget Committee constituted by the Legislature with legislative representation upon it in the person of the chairman of the Committee on Appropriations on the part of the Senate and the House for the past two years presented a budget that was believed adequate to care for all the activities of the State and still left a margin for that tax-reduction that is of such critical importance at this time. The estimates of the budget committee were equal to the record level of appropriations for our departments and institutions that was reached two years ago. Never before in our history had there been such generous provision for the welfare of all those dependent upon the bounty of the State. Now it is proposed to carry those record expenditures to new heights with increases of from ten to fifty per cent in many of the forty-six departments and institutions that the State now carries on.

If these record expenditures are necessary it seems impossible for the State during the next two years to contribute \$340,000.00 to what is probably one of the most prosperous enterprises now being carried on within our State with earnings that would inevitably exceed 15% upon its common stock each year.

Determination of the expenditures that will be necessary during the next two years will reveal whether it is possible to reduce the taxes upon the citizens of our State. If a reduction is possible the equitable distribution of the relief would follow in due course.

To reduce taxes before determining expenditures is putting the cart before the horse.

Until it is possible to determine the burdens it will be necessary to impose upon the farmers and the industries and the merchants of our State it is impossible for me to accept the responsibility of relieving a prosperous railroad to the amount of \$340,000.00 and placing it upon industries and farms and merchants that are in many instances in a far different plight.

In discussion of this measure there is frequent insistence that the welfare of the State is dependent upon the prosperity of our railroads. This is no more true, however, than it is to say that the welfare of the State is dependent upon the prosperity of our factories or our farms. In fact, it is probably less true since industry and agriculture must generate the life blood of commerce upon which the railroads alone can thrive. The farmers and the manufacturers of Maine produce the golden egg without which our transportation systems could not endure for a day.

This railroad tax reduction means that the City of Portland in the next two years must contribute \$50,000 to make up the deficiency. The industries of Maine will find \$125,000 added to their tax-bill and must continue to pay the same freight rates, since the railroads very frankly state that this cannot mean a reduction in transportation charges. Every farmer in Maine must take two dollars out of his pocket and add it to the million dollar and constantly growing surplus of the chief railroad of our State.

GENERAL REVENUE

The revenues of the State for the past four years from this railroad tax have been as follows:

1923	\$2,305,000
1924	2,385,000
1925	1,911,000
1926	1,914,000

Under the estimates submitted by the representatives of the railroads the income to the State under the proposed plan for the current year would amount to \$1,650,000. This means a

shrinkage in four years of \$735,000 in the annual revenue of the State from this source or more than a mill that must consequently be added to our direct state tax.

There is no business in the State that could endure a reduction in income from one source of \$750,000 in four years, and yet that is the result of the proposal here presented, if the income of the State from railroad taxation in 1924 is compared with the return that would be received in 1928. This loss in revenue of \$735,000 annually must be made up by the farmers and industries of Maine.

The present system of railroad taxation in its inception very materially reduced the taxes upon these corporations. Railroad influence was then powerful. Later the rate of taxation was raised to its present level with the full approval of the railroads rather than submit to the system of taxation for railroads that prevails in most of our sister states and the system under which all other property in Maine is now taxed.

The chief argument that has been used for this tax reduction has been the contention that Maine railroads are taxed more heavily than those in other sections of the United States. Nine per cent earnings upon the common stock and the fourteen per cent earnings that are in prospect are a rather conclusive answer to the suggestion that the railroads of Maine are overburdened by the State. Maine must be a railroad bonanza if such earnings can accompany too burdensome a tax.

The present tax is attacked as the highest excise tax, with one exception, in the United States. You have not been told, however, that only a very few states in the Union use this system for a levy. Thirty-four states use the system of ad valorem valuation treating railroad properties by the same general system by which other properties are taxed. Would the railroads of Maine desire to adopt the system that is so nearly universal throughout the United States?

The tax return per mile of road in Maine is practically the same as the average tax per mile of road throughout the United States. Certainly insofar as the Maine Central Railroad Company is concerned conditions upon its lines are not so different from the average through the United States, if we consider the great number of miles in the south and west that serve a more sparsely settled region with far less industrial development than exists in the southern and central part of the State of Maine.

It is said, however, that conditions here are different from elsewhere in the United States and comparisons of taxes with the other New England States are stressed by the advocates of a change.

The average tax per mile of road for all the New England

States is \$1460. The tax per mile in Maine under our present system is \$1023 per mile. Three New England States impose taxes of from \$1600 to \$3000 per mile.

This does not indicate that the railroads in Maine are unduly burdened in comparison with the other New England States.

The railroads of Maine in proportion to their property or their prosperity bear a smaller share of the tax burden than any other line of industry or class of property in the State.

The principal railroad involved in this State has a capitalized value of \$60,000,000 and somewhat more than this for rate-making purposes. Sixty per cent of this valuation, which is about the normal figure for valuation in the State of Maine, would mean a valuation of \$36,000,000. The average municipal tax rate in the State of Maine is \$40. This would mean a direct tax of \$1,440,000 which would result in an increase in its tax contribution of more than \$500,000 over the amount now assessed in order to make its burden proportionate with that borne by all other citizens and industries in the State of Maine.

The State has shown a most friendly and cooperative attitude toward this railroad during the past two years by loaning its credit in a very substantial sum to provide for the construction of a bridge over the Kennebec River at Bath, with the railroad extending its re-payment of this advance over a period of fifty years. During that time the State must bear whatever hazards there may be incident to the transportation business without possibility of any direct return in excess of the money it has actually laid out.

Two years ago the plea for tax reduction was based on a dire tale of financial woe. At the very time the legislature was listening with a most sympathetic ear to that story, those in charge of the railroad chiefly concerned were fully aware that a remarkable recovery was in full swing and were privately predicting a resumption of dividends upon the common stock. To-day the situation is utterly transformed with a full treasury and a steady increase in net income and further very substantial advantages soon sure to accrue in rate divisions with roads to the east and the west.

A considerably more favorable basis of division has been offered by the western roads and accepted by some New England roads but declined by the Maine Central Railroad Company in order to insist upon an even larger share. Coupled with the change in the divisions with the Bangor and Aroostook Railroad Company that is confidently anticipated during this present year the surplus of the Maine Central is certain to go to new heights.

Until three days after the passage of this bill by the Legislature it was the general impression among the members and even among those in the Legislature responsible for the fixing of the tax rate for the coming year that the proposal of the

railroad would involve an annual loss of \$120,000. This was the figure that was constantly mentioned in discussions of this matter and many were under the impression that no reduction at all was to take place during the coming fiscal year. On Monday morning of this week with the bill safely upon my desk and out of the hands of the Legislature one of the most active and alert members of the Committee on Appropriations who had been constantly at work upon the estimates and had conferred repeatedly with the representative of the Maine Central Railroad Company regarding the proposed tax reduction stated to me that the measure involved a loss of \$120,000 each year. This was less than one-half of the amount that the bill actually cut off. No member of the Legislature was in a better position to be accurately informed. The responsibility for this misapprehension is not for me to affix but it does indicate that many members of the Legislature may not fully have realized the consequences of this act.

Three narrow gauge railroads and one other small road are saved from their present small taxes by this bill. In one case the present tax is \$500 and in two other cases is \$1200. All of these are community affairs and abundantly deserve relief. One of them was nearly ruined by one of the major railroads of the state by bus competition before it was abandoned to the community it must serve and now with cynical contempt they offer this abandoned child a crumb.

There would seem to be no reason for objection to unanimous consent to the introduction of a measure that would afford these roads relief. A road with a million dollar surplus earning nine dollars a share upon its common stock does not need to hide behind the skirts of a narrow-gauge and secure votes for a reduction of its taxes in the amount of \$170,000 by appeal to the senators or representatives interested in a road that will benefit to the extent of \$1200. A member of this Legislature does not need to sell his birthright for such a mess of pottage. The case of the four small roads can well stand upon its merits without being used as a cat's paw to secure a contribution of \$170,000 a year.

It is necessary for us to consider this question primarily with relation to its effect upon our state finances and tax-rate during the next two years but it must also be borne in mind that we are making a radical change in our system of taxation that may disrupt the revenues of the state in future years.

A business depression under this new method might mean a reduction in state revenue from this source out of all proportion to the reduction in gross income of the railroads and a resultant doubling or trebling of the burden upon the commercial and agricultural interests of the state at the very time when they would be suffering even more acutely than the railroads since not only their net but even their gross revenues might be entirely wiped out with factories closed and harvests rotting in the field.

We are most insistently told that it is unfair to levy a tax unless there is net income with which to pay it. It seems puzzling that this argument can be taken so seriously when every factory and every farm and every business in Maine is taxed by the state and the municipality without any relation to its net income. Not only the net but the gross income of a corporation or a farm may entirely disappear and yet the state and municipal tax is not reduced one iota. In fact, if this measure passes, idle factories in Maine with no income, net or gross, and farms that may be on the verge of abandonment, must contribute from their depleted pockets to add to the million dollar annual surplus of the chief railroad of our state.

The voice of the average tax payer of the state is here silent except as he may speak through your mouths. The farmer, the home-owner, the small business man is not able to maintain an expensive lobby to argue his cause. His views upon the alternatives with which you are presented cannot, however, be in doubt.

There is here generated an atmosphere that is foreign to the homes from which we come. In neighborhood gatherings all over the state of Maine the elements of this problem may be considered with a due regard for the difficulties with which many of our citizens and corporations are now faced. To their opinions and ideas we may wisely turn for a moment after a winter spent in listening to a somewhat siren song and consult that other lobby composed of seven hundred thousand citizens of Maine upon whose straining backs must be placed the burden we take from a corporation earning fourteen per cent dividends at this time.

The orderly administration of the business of the state would seem to indicate the wisdom of first determining the amount of money absolutely needed to run the state in a respectable fashion for the next two years. Then it would be possible to make an equitable apportionment of the tax burden upon all the property of the state.

If it proves practicable so to arrange the expenditures and the finances of the State that a general reduction in taxation is possible, a reduction for the railroads might well be considered but in their present condition they should be the last rather than the first to be considered if we have a proper appreciation of the plight of agriculture and industry in our state.

The Edwards Manufacturing Company in Augusta is advertising that a reduction in its taxes is absolutely essential if it is to continue to do business in our State. This is typical of certain other industries in Maine and in New England.

In view of our platform declaration and pledges and the understanding with which the people of Maine have placed us in office, it does not seem possible for me to accept the responsibility for transferring a burden of several hundred thousand dollars during the next two years from corporations that are

in a very healthy condition, to the tax-burdened farms and industries of our State.

It is to me a matter of keen regret that it has not been practicable to give this problem consideration in an orderly manner after the budget of the State had been made up for the next two years and the time had arrived to determine the direct State tax.

This was a matter, however, beyond the control of the Executive and under the circumstances as they exist today there is no other course that it seems proper for me to pursue. Both the farmers and the business men of Maine would seem to me to have just cause for deep resentment at the transferring of such a burden to their backs at this time from the overflowing treasury of the chief railroad that is involved within this State.

My position in this matter has been clearly and repeatedly stated to the representatives of the railroads publicly and privately, and they were urged to allow this measure to take what would seem a more orderly course. They preferred, however, to use all their influence to secure tax reduction for themselves irrespective of whether it should mean a heavy increase in the tax burden for the other tax payers of the state. Their attitude indicated either a fear that the end of the session might reveal the unwisdom of reducing the taxes on a prosperous corporation and increasing the taxes on everyone else, or a lack of regard as to whether or not this might be the case.

This measure means a fifteen per cent reduction in taxes for a corporation in this state that last year earned a surplus of one million dollars and this year in January ran thirty per cent ahead of a year ago.

At the same time it is liable to be an important factor in a fifty per cent increase in the taxes on all the other corporations and individuals in the state.

Fifteen per cent reduction for this prosperous railroad and fifty per cent increase for our factories and farms, is a course of action which it is impossible for me to reconcile with a proper regard for the business and economic interests of our State nor with a sense of justice and fair dealing to all the citizens of Maine.